

Message Text

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C O N F I D E N T I A L STATE 109377

FOR TED HEAVNER AT EITHER ADDRESS

FOL RPT STATE 109377 ACTION KINGSTON 13 MAY 77 QUOTE

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AIDAC, FOR DORRANCE FROM LION

E.O. 11652: GDS

TAGS:

SUBJECT: DRAFT REPORT ON U.S./GOJ ECONOMIC TALKS

1. WOULD APPRECIATE COMMENTS OF EMBASSY TEAM MEMBERS ASAP ON FIRST DRAFT OF SUBJECT REPORT.
2. REPORT ON JOINT US-JAMAICA ECONOMIC COOPERATION TALKS - MAY 2-6, 1977
3. BACKGROUND: THE JOINT TALKS WERE A FOLLOW-UP TO THE EARLY MARCH VANCE-PATTERSON AGREEMENT TO SEEK BETTER CONFIDENTIAL

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RELATIONS AND TO EXPLORE WAYS OF IMPROVING ECONOMIC COOPERATION. THE DISCUSSIONS WERE GUIDED BY TERMS OF REFERENCE DESCRIBED IN THE VANCE-RATTRAY EXCHANGE OF LETTERS (TAB A). U.S. STRATEGY AND OBJECTIVES FOR THE JOINT MEETINGS (TAB B), ESTABLISHED PRIOR TO THE TEAM'S DEPARTURE FOR KINGSTON, WERE CARRIED OFF SUCCESSFULLY. THE TALKS WERE CORDIAL, COMPREHENSIVE AND CANDID, AND CLEARLY WERE ACCORDED THE HIGHEST PRIORITY BY THE GOVERNMENT OF JAMAICA. USG AND JAMAICAN TEAM MEMBERS ARE LISTED IN TAB C.

4. AN IMPORTANT FACTOR CONTRIBUTING TO THE PRODUCTIVE

ATMOSPHERE OF THE TALKS WAS DEPUTY ASSISTANT SECRETARY BILL LUERS' PRESENCE AND ACTIVITIES. HIS ARRIVAL AND TWO DAYS OF DISCUSSIONS WITH THE PRIME MINISTER, FOREIGN MINISTER AND OTHERS underscored the U.S. DETERMINATION TO CARRY OUT THE VANCE-PATTERSON AGREEMENT AND DEMONSTRATED OUR SINCERE SUBSTANTIVE INTEREST IN THE ISSUES BEING EXPLORED IN THE JOINT TALKS.

5. ECONOMIC OVERVIEW: JAMAICA IS EXPERIENCING A GRAVE FOREIGN EXCHANGE CRISIS. THE CRISIS STEMS BASICALLY FROM A STRUCTURAL IMBALANCE LONG IN THE MAKING, BUT ITS URGENCY AND EXTENT HAVE BEEN HEIGHTENED BY RISING OIL PRICES, DECLINING PRICES OF JAMAICAN EXPORTS, HUMAN OUT-MIGRATION AND CAPITAL FLIGHTS.

6. CONSUMPTION HAS BEEN ALLOWED, EVEN ENCOURAGED, TO ATTAIN A LEVEL WHICH CANNOT BE SUSTAINED BY DOMESTIC PRODUCTION. HIGH BUDGET DEFICITS AND EXCESSIVE IMPORTS ARE THE IMMEDIATE MANIFESTATIONS OF THIS DISEQUALIBRIUM. GOING BACK FOR SOME 20 YEARS, THIS IMBALANCE WAS MADE POSSIBLE BY HIGH RATES OF FOREIGN INVESTMENT, INFLATION WITH ADVERSE INCOME DISTRIBUTION EFFECTS, SHORT TERM COMMERCIAL CREDITS, THE BAUXITE LEVY AND BY DRAWING

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UPON DOMESTIC INVENTORIES AND FOREIGN EXCHANGE RESERVES. JAMAICA HAS NOW EXHAUSTED ITS RESERVES; FOREIGN PRIVATE INVESTMENT IS UNAVAILABLE; THE FOREIGN COMMERCIAL BANKS ARE NOT INTERESTED. INVENTORIES HAVE ABOUT DISAPPEARED. THE STRING HAS RUN OUT.

7. THE JAMAICAN APPROACH: ON APRIL 22, THE GOJ ANNOUNCED A DUAL EXCHANGE RATE WHICH DEVALUED THE JAMAICAN DOLLAR 37.5 PERCENT FOR CERTAIN EXPORTABLES AND SOME NON-ESSENTIAL IMPORTABLES. THE RATE WAS NOT CHANGED FOR FOOD AND FUEL IMPORTS, BAUXITE EXPORTS AND OFFICIAL TRANSACTIONS. THE U.S. TEAM DOES NOT EXPECT THIS ADJUSTMENT TO MAKE A SIGNIFICANT DENT IN THE FOREIGN EXCHANGE GAP. NOR, PROBABLY, DO THE JAMAICANS AND THEY ARE PREPARED TO MODIFY THE MULTIPLE RATE STRUCTURE OVER TIME. IT MUST BE UNDERSTOOD, HOWEVER, THAT IN LIGHT OF THE POLITICAL SITUATION AND THE POLITICAL RHETORIC, THIS MOVE REPRESENTED A MAJOR PSYCHOLOGICAL STEP TOWARD STABILIZATION AND SHOULD BE INTERPRETED AS A SUBSTANTIAL INDICATION OF THE GOJ'S WILLINGNESS TO PURSUE AT LEAST FOR NOW, A POLITICALLY DIFFICULT STRATEGY IN CONFRONTING THE CRISIS. FROM A POLITICAL POINT OF VIEW, THE DE-VALUATION MIGHT WELL HAVE BEEN THE MAXIMUM ACCEPTABLE CHANGE.

8. THE EMERGENCY PRODUCTION PLAN CANNOT HOPE TO RESOLVE THE EXCHANGE CRISIS IN THE NEXT YEAR. IT PORTENDS A MAJOR PUSH IN: INCREASING AGRICULTURAL PRODUCTION (TO REDUCE FOOD IMPORTS AND FULFILL A "BASIC NEEDS" DEVELOPMENT STRATEGY), PROMOTING RURAL DEVELOPMENT; STIMULATING MANUFACTURING, THE CLOTHING AND HOUSING SECTORS; NON-TRADITIONAL EXPORTS; AND TOURISM. IT APPEARS TO HAVE SERVED ITS POLITICAL PURPOSES, HOWEVER, WHICH WERE TO MANIFEST DECISIVE GOVERNMENT ACTION IN DEALING WITH THE WIDELY PERCEIVED CRISIS AND TO ALLOW THE GOJ TO DEVALUE, EVEN IF PARTIALLY.

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9. THE GOJ HAS ATTEMPTED TO RESTRAIN PROJECTED PUBLIC EXPENDITURES, PARTICULARLY IN VIEW OF THE DIFFICULTY IN EXPANDING REVENUES. NEVERTHELESS, A LARGE DEFICIT, ON THE ORDER OF J 500 MILLIONS DOLS, WILL BE EXPERIENCED THIS YEAR. DEPENDING UPON HOW MUCH OF THIS GAP IS COVERED BY EXTERNAL ASSISTANCE, INFLATIONARY PRESSURES COULD BE SUBSTANTIAL, RESULTING IN A PRICE RISE OF AT LEAST 20 PERCENT DURING 1977.

10. THE BUDGET AND THE BUDGET DEFICIT COULD BE THE AREA OF MOST DIFFICULTY IN THE GOJ-IMF NEGOTIATIONS. THE GOJ NEEDS TO BALANCE THE INTRICATE RELATIONSHIPS AMONG THE BUDGET'S IMPACT ON INFLATION, EXPORTS, EMPLOYMENT, AND THE NEED FOR FOREIGN EXCHANGE. THE GOJ MAY FIND IT NECESSARY TO DELAY ITS PURSUIT OF A "BASIC NEEDS" STRATEGY BY HOLDING BACK IMPLEMENTATION OF THE EMERGENCY PRODUCTION PLAN, AS WELL AS OTHER ASPECTS OF ITS LONG TERM DEVELOPMENT OBJECTIVES.

11. THE CURRENT WAGE FREEZE, OR "PAUSE" IN THE GOJ'S PARLANCE, EXPIRES ON JUNE 30. THE GOJ IS KEENLY AWARE OF THE NEED TO COME UP WITH AN EFFECTIVE INCOMES POLICY. SUCH A POLICY IS INDISPENSABLE TO RESTRAINING CONSUMPTION, HOLDING DOWN THE BUDGET DEFICIT, MITIGATING INFLATION AND, SPECIFICALLY, TO A SUCCESSFUL ARRANGEMENT WITH THE IMF. APPARENTLY, THE POLITICAL OBSTACLE TO BE OVERCOME IS THE STRONG TRADE UNION MOVEMENT WITH WHICH DELICATE POLITICAL NEGOTIATIONS HAVE ALREADY STARTED OR SHORTLY WILL BE.

12. TO SUMMARIZE, THE GOJ'S APPROACH TO THE CURRENT CRISIS INVOLVES EFFORTS TO: REDUCE IMPORTS VIA DEVALUATION, IMPORT RESTRICTIONS, AND PROMOTION OF IMPORT SUBSTITUTION PRODUCTION; LIMIT THE BUDGET DEFICIT; HOLD BACK FOREIGN EXCHANGE OUTFLOWS BY DELAYING THE PAYMENT OF CONFIDENTIAL

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NON-GOVERNMENT OBLIGATIONS; STEP UP NON-TRADITIONAL EXPORTS AND RESTRAIN CONSUMPTION VIA A WAGE FREEZE. DEPENDING UPON HOW EFFECTIVE THIS APPROACH TURNS OUT TO BE, IN TANDEM WITH THE EXTERNAL ASSISTANCE THE GOJ HOPES TO ARRANGE, TOUGHER STABILIZATION MEASURES MAY HAVE TO BE UNDERTAKEN, AS WELL AS DELAYING ANY SIGNIFICANT IMPLEMENTATION OF CERTAIN ASPECTS OF ITS LONG TERM, "BASIC NEEDS" DEVELOPMENT STRATEGY.

13. POLITICAL OVERVIEW: JAMAICA'S CURRENT APPROACH TO ITS ECONOMIC PROBLEMS REPRESENTS A VICTORY FOR THE MODERATES WITHIN PRIME MINISTER MANLEY'S RULING PEOPLE'S NATIONAL PARTY (PNP). IT IS A VICTORY WHICH AROSE FROM A FAILURE OF THE RADICAL FACTION TO PRODUCE A VIABLE SOLUTION, RATHER THAN A REFLECTION OF THE MODERATES' POLITICAL MUSCLE. IN DOMESTIC POLITICAL TERMS, THEREFORE, WHAT IS AT STAKE IS THE ORIENTATION AND PERFORMANCE -- MODERATE VS RADICAL -- OF THE PNP IN THE NEAR TERM AND THE ROLE WHICH INDIVIDUAL LEADERS WITHIN THE PARTY ARE LIKELY TO PLAY IN THE FUTURE. SHOULD THE CURRENT APPROACH FALL APART, THE RADICAL WING WILL LIKELY RETURN TO ITS RECENT DOMINATING POSITION, PERHAPS STRONGER THAN EVER. IN THE EVENTUALITY OF A FAILURE OF THE PRESENT GOJ APPROACH WHICH RELIES CRITICALLY ON SECURING THE COOPERATION OF THE IMF, THE U.S. AND OTHER DONORS, THE ECONOMIC AND SOCIAL CONSEQUENCES WOULD BE GRAVE. UNEMPLOYMENT NOW AT 25-30 PERCENT WOULD GROW; FOOD SHORTAGES WOULD BECOME CRITICAL; INFLATIONARY PRESSURES WOULD MOUNT. THE EMBASSY REFERS TO THAT SCENARIO AS A "SOCIAL DISASTER," WITH THE POSSIBILITY OF FOOD RIOTS, VIOLENCE, REPRESSIVE MEASURES, AUTHORITARIANISM AND THE QUICKENING EMIGRATION OF TECHNICAL PERSONNEL, INCLUDING AMERICANS WHO ARE VITAL TO THE OPERATION OF THE BAUXITE/ALUMINA PLANTS. THE CONSEQUENCES FOR U.S. INTERESTS -- ECONOMIC, POLITICAL, HUMAN RIGHTS -- WOULD BE SERIOUSLY ADVERSE. THE EMBASSY CONFIDENTIAL

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ALSO MAKES THE JUDGEMENT THAT SIGNIFICANT U.S. AND OTHER DONOR ASSISTANCE WOULD MAKE POSSIBLE A GRADUAL TRANSITION TO A HEALTHY BALANCE BETWEEN CONSUMPTION AND PRODUCTION WITH A MINIMUM OF HUNGER AND VIOLENCE, AND WOULD YIELD MAXIMUM POSITIVE RETURNS TO U.S. INTERESTS.

14. THE BALANCE OF PAYMENTS GAP: AN IMPORT TARGET OF 750 MILLION DOLS, DOWN SIGNIFICANTLY FROM PREVIOUS YEARS, IS BELIEVED IMPERATIVE TO: MEET BASIC FOOD AND PETROLEUM REQUIREMENTS; KEEP DOMESTIC PRICES FROM RISING EXCESSIVELY (MORE THAN 20 PERCENT); AVOID A SHARP INCREASE IN UNEMPLOYMENT; MAINTAIN 1977 GROSS PRODUCT AT THE 1976 LEVEL; AND, ENABLE THE GOJ TO START THE TRANSITION,

EXPECTED TO TAKE THREE TO FIVE YEARS, TO A SELF-RELIANT, BALANCED ECONOMY WITH AN INTERNAL CAPACITY TO ACHIEVE ITS "BASIC NEEDS" DEVELOPMENT STRATEGY. THE GOJ ESTIMATES THAT THE FOREIGN EXCHANGE GAP FOR THIS YEAR AND FOR EACH OF THE NEXT FOUR YEARS IS APPROXIMATELY 200 MILLION DOLS.

15. DURING THE YEAR APRIL 1977 THROUGH MARCH 1978, FOREIGN EXCHANGE REQUIREMENTS YET TO BE ARRANGED OR ACQUIRED AMOUNT, FOR EACH OF THE FOUR QUARTERS, TO THE FOLLOWING:

APRIL - JUNE	25 MILLION DOLS
JULY - SEPTEMBER	75 MILLION DOLS
OCTOBER - DECEMBER	50 MILLION DOLS
JANUARY - MARCH	50 MILLION DOLS

16. PROSPECTS FOR ASSISTANCE, APRIL 1977 - MARCH 1978: THE CANADIAN ROLL-OVER OF A 25 MILLION DOL GOJ DEBT SIMPLY SHIFTED THE BURDEN FROM THE CURRENT TO THE JULY - SEPTEMBER QUARTER. NO PRESENT SOURCE, OTHER THAN THE IMF, NOW APPEARS AVAILABLE TO COVER THE REMAINING APRIL - JUNE GAP.
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17. AFTER JUNE, THE GOJ IS COUNTING UPON 6.25 MILLION DOLS FOR EACH OF THE NEXT SEVERAL QUARTERS FROM VENEZUELA, AND ABOUT 50 MILLION DOLS FROM THE NEW IMF OIL FACILITY IN EARLY 1978. IF ONE ASSUMES AN IMF AGREEMENT PROVIDING 25 MILLION DOLS THIS QUARTER AND ALSO A SECOND TRANCHE DURING THE OCTOBER - DECEMBER PERIOD (FOLLOWING AN IMF EVALUATION OF GOJ PERFORMANCE), THE FOLLOWING UNFILLED GAPS EMERGE:

APRIL - JUNE	0
JULY - SEPTEMBER	68.75 MILLION DOLS
OCTOBER - NOVEMBER	18.75 MILLION DOLS
JANUARY - MARCH	0

18. THE "CRUNCH" QUARTER, OBVIOUSLY, IS THE PERIOD JULY - SEPTEMBER OF 1977. ALTHOUGH THE GOJ IS SEEKING HELP FROM SEVERAL SOURCES INCLUDING THE UK; THE NETHERLANDS, WEST GERMANY, CANADA, VENEZUELA, TRINIDAD AND TOBAGO AND THE IFI'S, IT APPEARS DOUBTFUL THAT THESE OR OTHER SOURCES (SOME OF WHICH ARE ALREADY ASSISTING JAMAICA) COULD OR WOULD MEANINGFULLY CLOSE THE JULY - SEPTEMBER GAP. THE UK IS PRIMARILY INTERESTED IN TECHNICAL ASSISTANCE ALTHOUGH, IF PUSHED, MIGHT COME UP WITH

SOME BALANCE OF PAYMENTS HELP; CANADA IS ALREADY A MAJOR FACTOR IN THIS SITUATION AND MAY BE RELUCTANT TO ASSIST FURTHER ON THE BALANCE OF PAYMENTS SIDE (A CANADIAN LINE OF CREDIT OF 65 MILLION DOLS IS ALREADY BEING "COUNTED

ON" BY THE GOJ, ALTHOUGH IT WILL APPARENTLY NOT BE MADE AVAILABLE WITHOUT AN IMF STANDBY); THE NETHERLANDS COULD BE INTERESTED BUT APPEARS TO BE TYING ITS COOPERATION TO THE FORMATION OF A CONSORTIUM; THE IFIS HAVE A SIZEABLE PROJECT PIPELINE WHICH WILL NOT DISPERSE RAPIDLY ENOUGH TO BE USEFUL IN THE NEXT SEVERAL MONTHS AND PROGRAM LENDING IS A MOST UNLIKELY PROSPECT, AT LEAST

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FOR THE JULY - SEPTEMBER PERIOD.

19. IN VIEW OF THE ABOVE, SHOULD THE USG DECIDE TO HELP, ITS ASSISTANCE IS MOST NEEDED IN THE JULY - SEPTEMBER QUARTER. US ASSISTANCE DURING THESE MONTHS WOULD NOT ONLY HELP TO COVER JAMAICA'S BALANCE OF PAYMENTS REQUIREMENTS DURING ITS LIKELY MOST CRITICAL PERIOD, BUT IT WOULD ALSO BE ARRIVING DURING A PARTICULARLY IMPORTANT PHASE OF JAMAICA'S ECONOMIC PERFORMANCE -- THE BEGINNING OF THE IMPLEMENTATION OF ITS EMERGENCY PRODUCTION PLAN, THE MONITORING OF EXPERIENCE WITH THE DUAL EXCHANGE RATE, AND, IF THERE IS AN IMF STANDBY, A PERIOD DURING WHICH THE GOJ'S PERFORMANCE WOULD BE CLOSELY SCRUTINIZED BY THE IMF.

20. THE ROLE OF THE IMF: AN IMF-GOJ AGREEMENT APPEARS TO BE INDISPENSABLE TO SUCCESSFUL MANAGEMENT OF JAMAICA'S IMMEDIATE AND SHORT-RUN FOREIGN EXCHANGE CRISIS. AN IMF AGREEMENT WOULD:

A. PRODUCE SOME 50 MILLION DOLS IN TWO TRANCHES, ONE IN THIS AND THE SECOND IN THE OCTOBER - DECEMBER QUARTER;

B. FACILITATE JAMAICA'S ACCESS TO THE NEW IMF FACILITY WHICH COULD PROVIDE SOME 50 MILLION DOLS BEFORE THE END OF THE YEAR;

C. MAKE POSSIBLE JAMAICA'S PARTICIPATION IN THE IMF EXTENDED FACILITY STARTING IN 1978 AND PROVIDING AS MUCH AS 25 MILLION DOLS PER QUARTER FOR THE NEXT TWO TO THREE YEARS;

D. ENABLE JAMAICA TO DRAW DOWN ITS CANADIAN EXPORT CREDITS OF 65 MILLION DOLS;

E. CREATE THE POSSIBILITY OF A WORLD BANK PROGRAM LOAN

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BY THE END OF 1977; AND,

E. ENCOURAGE OTHER DONORS AND THE EXTERNAL COMMERCIAL

BANKING SECTOR -- WHICH HOLDS A SUBSTANTIAL PROPORTION OF JAMAICA'S DEBT -- TO BE MORE FORTHCOMING DURING THE IMMEDIATE CRISIS AND BEYOND.

21. IN SHORT, AN IMF AGREEMENT COULD COVER HALF OF JAMAICA'S EXCHANGE GAP THROUGH 1977 AND DIRECTLY PROVIDE FOR AS MUCH AS ONE-THIRD OF ITS REQUIREMENTS FOR THE YEARS 1978-79-80. IT ALSO WOULD, ALONG WITH GOOD JAMAICAN ECONOMIC PERFORMANCE, EXPEDITE A SIGNIFICANT POSITIVE RESPONSE FROM OTHER PUBLIC AND PRIVATE SOURCES OF HELP.

22. THE ISSUES:

A. SHOULD THE US HELP? U.S. ASSISTANCE WOULD REPRESENT A VALUABLE, TANGIBLE MANIFESTATION OF THE VANCE-PATTERSON AGREEMENT TO SEEK IMPROVED RELATIONS AND EXPLORE WAYS OF IMPROVING ECONOMIC COOPERATION. OUR ECONOMIC INTERESTS (E.G., BAUXITE/ALUMINA) WOULD BE SERVED; OUR POSITION IN THE CARIBBEAN AND THE DEVELOPING WORLD WOULD BE ENHANCED; OUR HUMANITARIAN AND DEVELOPMENT OBJECTIVES WOULD BE FOSTERED. THE "BASIC NEEDS" GOALS OF THE MANLEY REGIME APPEAR COMPATIBLE WITH OUR OWN BILATERAL ASSISTANCE "NEW DIRECTIONS" OBJECTIVES. ASSISTANCE TO A DEMOCRACY WITH A COMPARATIVELY GOOD HUMAN RIGHTS RECORD COULD BE SEEN AS A DEMONSTRATION OF THE POSITION OF THE NEW U.S. ADMINISTRATION WITH RESPECT TO RELATING ASSISTANCE TO HUMAN RIGHTS PERFORMANCE.

UNLESS U.S. ASSISTANCE IS ACCCOMPANIED BY HELP FROM OTHER SOURCES, ESPECIALLY THE IMF, AND BY SERIOUS INTERNAL STABILIZATION EFFORTS BY THE GOJ, IT WILL HAVE BEEN PROVIDED IN VAIN. IN THAT CASE, ALTHOUGH IT WOULD

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DELAY A FOOD CRISIS OR IN OTHER WAYS HELP ON THE HUMANITARIAN SIDE FOR THE VERY SHORT RUN, OUR ASSISTANCE WILL HAVE MADE NO REAL CONTRIBUTION TO THE EXCHANGE CRISIS OR TO THE ACHIEVEMENT OF JAMAICA'S DEVELOPMENT GOALS.

B. HOW MUCH AND WHAT KIND? WHAT TIMING? TO BE SIGNIFICANT, U.S. ASSISTANCE SHOULD COVER A SUBSTANTIAL PORTION OF THE ANTICIPATED GAP OF CLOSE TO 70 MILLION DOLS. A PROGRAM LOAN WOULD BE IDEAL BECAUSE OF THE SPEED IN WHICH IT COULD BE USED. IF RESOURCES PERMITTED, A LOAN OF SOMETHING ON THE ORDER OF 40 MILLION DOLS WOULD MAKE SENSE. SUCH A LOAN, COMBINED WITH THE POSSIBILITIES OF OTHER BILATERAL ASSISTANCE (NETHERLANDS, U.K.)

AND, IF ABSOLUTELY NECESSARY ANOTHER CANADIAN ROLL-OVER, WOULD PULL THE JAMAICANS THROUGH THEIR TOUGHEST TIME

PERIOD DURING THE COMING SEVERAL MONTHS.

A PROGRAM LOAN OF ANY SIZEABLE MAGNITUDE WOULD BE RESISTED AT THIS TIME BY SOME AGENCIES WITHIN THE EXECUTIVE BRANCH, AND WOULD ALSO PROBABLY ENCOUNTER SERIOUS CONGRESSIONAL OPPOSITION. IT WOULD SEEM MOST UNLIKELY THAT THE U.S. EXECUTIVE AND LEGISLATIVE BRANCHES WOULD HAPPILY UNITE ON THE PROGRAM LOAN INSTRUMENT BEFORE AN IMF STANDBY WAS ARRANGED AND BEFORE JAMAICAN PERFORMANCE UNDER THE STANDBY COULD BE EVALUATED (SAY OCTOBER).

CCC CREDITS AND PL 480 TITLE I APPEAR TO BE THE NEXT BEST INSTRUMENTS. THEY COULD BE DISPERSING AS EARLY AS A MONTH AFTER NEGOTIATED. THE MIX OF CCC CREDITS AND PL 480 DEPENDS UPON AVAILABILITIES, CAPACITY OF THE JAMAICANS TO ABSORB, WHETHER OR NOT AN IMF AGREEMENT IS DEEMED INDISPENSABLE PRIOR TO A U.S. DECISION ON ASSISTANCE, AND, BECAUSE OF THE COMPETITION FOR PL 480 AND THE POLITICAL ISSUES INVOLVED, JUST WHAT PRIORITY
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THE USG PUTS UPON ASSISTANCE TO JAMAICA COMPARED WITH OTHER COUNTRY SITUATIONS. UNLESS A PROGRAM LOAN TYPE TRANSFER IS ARRANGED, THEN FOOD ASSISTANCE APPEARS TO BE THE ONLY KIND OF HELP WHICH COULD HAVE SIGNIFICANT BALANCE OF PAYMENTS IMPACT DURING THE CRITICAL QUARTER. FOOD ASSISTANCE HAS TWO ADDITIONAL ADVANTAGES: IT CAN BE ARRANGED RELATIVELY QUICKLY; AND, IT HAS IMPORTANT DIRECT HUMANITARIAN RESULTS. IT MAY TAKE A PRESIDENTIAL DECISION, HOWEVER, TO SOLVE THE POLITICAL RISK PROBLEM WHICH SEEMS TO BE HOLDING UP THE CCC CREDITS AND TO SETTLE THE PRIORITY AND OTHER QUESTIONS WHICH A PL 480 PROGRAM INVOLVES.

PRIOR TO THE U.S./GOJ TALKS, AN FY 77 DEVELOPMENT LOAN PROGRAM OF 10 TO 15 MILLION DOLS IN RURAL DEVELOPMENT AND EDUCATION WAS PLANNED, AS WELL AS A 3-YEAR HOUSING INVESTMENT GUARANTEE (HIG) PROGRAM OF 30 MILLION DOLS, RUNNING FROM FY 78 TO FY 80. THE HIG PROJECT COULD BE ADVANCED TO FY 77. SHOULD AN ASSISTANCE PACKAGE BE PUT TOGETHER, THESE ACTIVITIES COULD BE INCLUDED, ALTHOUGH, WITH THE EXCEPTION OF SOME ADVANCE MONEY (E.G. 3 MILLION DOLS) FOR THE HIG, THEIR BALANCE OF PAYMENTS EFFORTS WOULD NOT BE FELT UNTIL NEXT YEAR.

U.S. ASSISTANCE COULD ALSO INCLUDE AN INDICATION OF COOPERATION IN IDENTIFYING OPPORTUNITIES FOR EXPANDING

EXPORTS TO THE U.S., THE OFFER OF TECHNICAL ASSISTANCE FOR EXPORT PROMOTION AND DEVELOPMENT IF THE GOJ IS INTERESTED, THE USE OF OUR "GOOD OFFICES" IN WORKING WITH OTHER BILATERAL AND INSTITUTIONAL DONORS, AND A WILLINGNESS

TO JOIN THE GOJ BILATERALLY OR WITHIN A MULTI-NATION FRAMEWORK IN DISCUSSIONS LATER IN THE YEAR ON THE SUBJECT OF COOPERATION WITH THE GOJ'S FIVE-YEAR DEVELOPMENT PROGRAM.

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SUMMARY OF POSSIBLE U.S. ASSISTANCE, (DOLS MILLION)

PROGRAM LOAN: 40
P.L. 480, CCC CREDITS: 20-40
FY 77 DEVELOPMENT LOAN PROGRAM: 10-15
HIG (FIRST YEAR): 10-15

COOPERATION ON EXPORT PROMOTION, LONG RANGE DEVELOPMENT ASSISTANCE, "GOOD OFFICES" WITH OTHER DONORS.

C. SHOULD U.S. ASSISTANCE BE TIED TO AN IMF AGREEMENT?
IF THE U.S. ANNOUNCES AN ASSISTANCE PACKAGE PRIOR TO AN IMF AGREEMENT, IT WOULD DEMONSTRATE ITS INDEPENDENCE OF THE IMF AND MAXIMIZE THE POSITIVE POLITICAL EFFECTS OF ITS HELP. IT MIGHT ALSO WEAKEN THE GOJ'S INCENTIVE TO WORK OUT AN ACCOMMODATION WITH THE IMF ALTHOUGH THE JAMAICANS FULLY APPRECIATE THAT U.S. ASSISTANCE OF THE MAGNITUDES MENTIONED ABOVE DOES NOT ALTER JAMAICA'S FUNDAMENTAL NEED FOR IMF HELP. SHOULD NO GOJ-IMF AGREEMENT BE ARRANGED, THEN U.S. ASSISTANCE ANNOUNCED WITHOUT THE CONDITION OF AN AGREEMENT WILL HAVE BEEN MADE FOR POLITICAL AND HUMANITARIAN REASONS. IT WILL HAVE BEEN LOST IN THE DISARRAY AND ECONOMIC DISLOCATIONS WHICH ARE INEVITABLE IN THE WAKE OF THE GOJ'S INABILITY TO SECURE IMF ASSISTANCE.

IN DETERMINING WHETHER AND, IF SO, HOW TO TIE ITS ASSISTANCE TO AN IMF AGREEMENT, THE U.S. NEEDS TO CONSIDER WHEN SUCH AN AGREEMENT COULD BE WORKED OUT. IMF REPRESENTATIVES EXPECT THAT THEIR ON-GOING NEGOTIATIONS WITH THE JAMAICANS IN KINGSTON WILL BE CONCLUDED BY AROUND JUNE 1. AN AGREEMENT, AFFIRMED BY A LETTER FROM THE MANAGING DIRECTOR OF THE IMF TO THE JAMAICANS, PROBABLY CANNOT BE EXPECTED MUCH BEFORE MID-JUNE. DELAYING THE ANNOUNCEMENT OF A U.S. RESPONSE TO THE JAMAICAN CRISIS UNTIL THAT TIME MAY BE UNDESIRABLE.

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AT THIS STAGE, THE U.S. TEAM BELIEVES THAT THE CHANCES FOR AN IMF STANDBY ARE GOOD.

23. RECOMMENDATIONS:

A. IF A PROGRAM LOAN IS INFEASIBLE IN THE SHORT RUN, THE U.S. SHOULD OFFER A PACKAGE ALONG THE LINES DESCRIBED ABOVE, INCLUDING CCC, P.L. 480, HIG, A DEVELOPMENT LOAN PROGRAM AND THE OTHER NON-QUANTITATIVE OFFERS OF COOPERATION. IF A SMALL PROGRAM LOAN IS POSSIBLE, THEN IT COULD BE PART OF THE PACKAGE ALONG WITH FOOD AID, HIG AND THE DL PROGRAM.

B. THE PACKAGE SHOULD BE ASSEMBLED AS SOON AS POSSIBLE, PREFERABLY BEFORE THE END OF MAY AND ANNOUNCED PUBLICLY, ALONG WITH THE DECISION TO SEND TO JAMAICA A U.S. FOLLOW-UP TEAM TO TIE-UP ANY LOOSE ENDS ON THE P.L. 480 AND VCC PROGRAMS AND, IF THE GOJ IS INTERESTED, TO CONTINUE THE DISCUSSIONS ON EXPORT POTENTIAL WHICH WERE BEGUN IN THE FIRST JOINT GOJ-USG ECONOMIC TALKS.

C. PRIVATELY, THE U.S. SHOULD INFORM THE JAMAICANS THAT ANY ADDITIONAL ASSISTANCE BEYOND A TRADITIONAL, MODEST BILATERAL DEVELOPMENT PROGRAM, WILL DEPEND UPON AN IMF-GOJ AGREEMENT AND GOJ PERFORMANCE WHICH MERITS THE RECEIPT OF A SECOND IMF TRANCHE. THUS, IT IS RECOMMENDED THAT THERE BE AN IMMEDIATE POSITIVE U.S. RESPONSE, UNTIED TO THE IMF, WITH ANY UNUSUAL FURTHER ASSISTANCE TIED TO A STANDBY AND TO SOLID GOJ PERFORMANCE.

D. IF APPROVED, THIS SCENARIO SHOULD BE DISCUSSED WITH THE IMF. CHRISTOPHER

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To: BRIDGETOWN NAVFAC ANTIGUA
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